

DIRECT TESTIMONY OF
KEITH C. COFFER, JR.
ON BEHALF OF
DOMINION ENERGY SOUTH CAROLINA, INC.
DOCKET NO. 2020-125-E

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1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

3 A. My name is Keith C. Coffey, Jr. My business address is 400 Otarre Parkway,
4 Cayce, South Carolina.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Dominion Energy Southeast Services, Inc. and serve as
7 the Controller of Dominion Energy South Carolina, Inc. ("DESC" or the
8 "Company").

9 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
10 **EXPERIENCE.**

11 A. I earned a Bachelor of Science degree in Business Administration from The
12 Citadel in May 1992. After fulfilling a military training obligation, I joined the
13 South Carolina State Auditor's Office as an auditor. In August 1995, I left this
14 position to work with the public accounting firm of Hamilton, Schmoyer & Co. In
15 July 1997, I accepted a position in SCANA's internal audit department and, in
16 January 1999, I was promoted to Customer Billing Supervisor, where I was
17 responsible for ensuring accurate billings to the Company's residential and
18 commercial customers and ensuring the accuracy of accounting transactions within
19 the billing cycle. In July 2000, I was promoted to Supervisor of Property
20 Accounting, where I was responsible for accounting for DESC's fixed assets. I was
21 promoted to Assistant Controller of DESC in October 2002. In January 2014, I was

1 promoted to Director of Accounting and Financial Reporting and was promoted to
2 my current position in December 2019. My responsibilities include ensuring that
3 all business transactions are accounted for in accordance with applicable accounting
4 principles and that the Company maintains an adequate system of internal
5 accounting controls. I am a certified public accountant in South Carolina.

6 **Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC SERVICE**
7 **COMMISSION OF SOUTH CAROLINA (“COMMISSION”) IN THE PAST?**

8 A. Yes, I have testified before this Commission in past proceedings.

9 **II. SCOPE OF TESTIMONY AND IDENTIFICATION OF EXHIBITS**

10 **Q. PLEASE DESCRIBE THE SCOPE OF THE TESTIMONY YOU ARE**
11 **PRESENTING IN THIS CASE.**

12 A. In connection with its Application for Adjustments and Increases in Electric
13 Rates and Charges (“Application”), the Company included certain exhibits
14 containing financial information. In this testimony, I discuss a number of those
15 exhibits and ask the Commission to incorporate the Application into the record of
16 these proceedings. I further discuss a number of accounting pro forma adjustments
17 contained in those exhibits in support of the Company’s Application. Company
18 Witness Kochems will testify about the remaining pro forma adjustments contained
19 in the exhibits to the Company’s Application.

1 **Q. HOW ARE THE BOOKS AND RECORDS OF THE COMPANY**
2 **MAINTAINED?**

3 A. The books and records of the Company are maintained in accordance with
4 accounting principles generally accepted in the United States of America (“GAAP”)
5 and with the Uniform System of Accounts for major utilities as prescribed by the
6 Federal Energy Regulatory Commission (“FERC”). This Uniform System of
7 Accounts has been adopted by the Commission and is followed by major utilities
8 subject to its jurisdiction. Compliance with GAAP and the Uniform System of
9 Accounts is necessary in order to provide consistent and pertinent financial
10 information to the general public, investors, regulators, and the financial
11 community.

12 **Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS**
13 **BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?**

14 A. The Company maintains and relies upon an extensive system of internal
15 accounting controls, audits by both internal and external auditors, and financial
16 oversight by the Board of Directors. The system of internal accounting controls is
17 designed to provide reasonable assurance that all transactions are properly recorded
18 in the books and records and that assets are protected against loss or unauthorized
19 use. Each year, management documents DESC’s internal controls over financial
20 reporting and performs testing to be able to provide an assessment in accordance
21 with Section 404 of the Sarbanes-Oxley Act of 2002. No material weaknesses in

DESC's controls have been identified as a result of the management assessment process.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-1), WHICH IS ALSO EXHIBIT NO. C-1 OF THE APPLICATION.

A. Exhibit No. __ (KCC-1) consists of 52 pages and includes the Condensed Consolidated (Regulatory Basis) Balance Sheet for DESC as of December 31, 2019, and the Condensed Consolidated Income Statement (Regulatory Basis) for the twelve months ended December 31, 2019, based on the Company's FERC Form No. 1 filing. I note that included within Accounts Payable – Affiliated Companies is \$355 million in short-term borrowings due to Dominion Energy, Inc. under an inter-company credit agreement. Consistent with similar financial statements previously filed with this Commission, these regulatory basis financial statements exclude the accounts of South Carolina Generating Company, Inc. ("GENCO").

Q. PLEASE DESCRIBE PAGE 1 OF 4 OF EXHIBIT NO. __ (KCC-2), WHICH IS ALSO PAGE 1 OF 4 OF EXHIBIT C-2 OF THE APPLICATION.

A. Page 1 of 4 of Exhibit No. __ (KCC-2) is an analysis of the Company's total electric operating experience that identifies operating revenues and expenses, income for return, original cost rate base, and rate of return for the twelve months ended December 31, 2019 (the historical "Test Year").

Column 1 provides a description of the items included in determining income for return and original cost rate base.

1 **Column 2** presents the “regulatory per books” amounts used to determine
2 income for return and original cost rate base for the Test Year.

3 **Column 3** summarizes the Company’s accounting and pro forma
4 adjustments that are necessary to reflect known and measurable changes to the
5 results of the Company’s electric operations for the Test Year. The detail for each
6 pro forma adjustment by line item is listed on pages 3 and 4 of Exhibit No. __ (KCC-
7 2) and on pages 3 and 4 of Exhibit C-2 of the Application, and the totals of such
8 adjustments are provided on page 4 of 4 of Exhibit No. __ (KCC-2) and page 4 of
9 4 of Exhibit C-2 of the Application.

10 **Column 4** presents the results of the Company’s total electric operations as
11 adjusted for the accounting and pro forma adjustments.

12 Page 2 of 4 of Exhibit No. __ (KCC-2) shows the retail electric results of
13 operations after adjustments (column 2), as well as those results after application of
14 the proposed revenue increase (columns 3 and 4).

15 **Q. PLEASE EXPLAIN THE DERIVATION OF THE RATE OF RETURN ON**
16 **ORIGINAL COST RATE BASE THAT APPEARS ON PAGE 2 OF 4 OF**
17 **EXHIBIT NO. __ (KCC-2), WHICH IS ALSO EXHIBIT C-2 PAGE 2 OF 4**
18 **OF THE APPLICATION.**

19 **A.** On page 2 of 4 of Exhibit No. __ (KCC-2), the total income for return on line
20 12 is divided by the total original cost rate base reflected on line 22 to derive the
21 rate of return on original cost rate base as reflected on line 23. This exhibit shows

1 that the Company earned 6.16% on rate base during the Test Year, which equates
2 to a return on common equity ("ROE") of 5.90% (see Exhibit No. __ (KCC-7))
3 compared to the authorized ROE of 10.25%. The Company would have earned
4 8.48% on rate base if the proposed revenue increase and the accounting and pro
5 forma adjustments had been considered, which equates to an ROE of 10.25% as is
6 set forth in the Company's Application.

7 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-2 SUPPLEMENTAL), WHICH**
8 **IS SUPPLEMENTAL EXHIBIT C-2 THAT WAS PROVIDED TO THE**
9 **COMMISSION AFTER THE APPLICATION WAS FILED.**

10 A. In response to Standing Hearing Officer Directive Order No. 2020-78-H,
11 DESC provided Supplemental Exhibit C-2 to the Commission on August 20, 2020.
12 This supplemental exhibit provides the same type of information provided in Exhibit
13 C-2 pages 1, 3, and 4, but on a retail electric basis instead of a total electric
14 operations basis. Note that the total as adjusted amounts shown in Supplemental
15 Exhibit C-2, page 1, column 4 agree to the Retail as Adjusted amounts in Exhibit
16 C-2, page 2, column 2. Page 2 of Exhibit C-2 is more fully described above.

17 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-3), WHICH IS ALSO**
18 **EXHIBIT C-3 OF THE APPLICATION.**

19 A. Exhibit No. __ (KCC-3) shows the computation of the proposed revenue
20 increase and serves to reconcile the components of the increase by showing the

1 impact of taxes and customer growth. The computation here details the 8.48%
2 return seen on Exhibit No. __ (KCC-2), page 2 of 4.

3 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-4), WHICH IS ALSO**
4 **EXHIBIT C-4 OF THE APPLICATION.**

5 A. Exhibit No. __ (KCC-4) is the Company's Statement of Fixed Assets for
6 Electric Operations as of December 31, 2019. This statement details gross Plant in
7 Service and Construction Work in Progress ("CWIP") by FERC functional
8 classification identified in **Column 1**.

9 **Column 2** includes the amounts recorded on the books and records of the
10 Company as of December 31, 2019.

11 **Column 3** summarizes the accounting and pro forma adjustments that impact
12 Plant in Service and CWIP as detailed in Exhibit No. __ (KCC-2) pages 3 and 4 and
13 Exhibit C-2 pages 3 and 4 of the Application.

14 **Column 4** shows the balances after including the effects of the adjustments
15 identified in Column 3.

16 **Column 5** contains the amount of adjusted gross Plant in Service and CWIP
17 allocated to retail electric operations.

18 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-5), WHICH IS ALSO**
19 **EXHIBIT C-5 OF THE APPLICATION.**

20 A. Exhibit No. __ (KCC-5) is the Company's Statement of Depreciation
21 Reserves for Electric Operations as of December 31, 2019. It should be noted that

1 for purposes of presentation on this exhibit, reserves associated with intangible plant
2 have been included with general plant reserves on line 4 of the exhibit.

3 **Column 2** shows the Depreciation Reserve amounts recorded on the
4 Company's books by FERC functional classification as described in **Column 1**.

5 **Column 3** summarizes the adjustments to Depreciation Reserves as detailed
6 in Exhibit No. __ (KCC-2) pages 3 and 4 and Exhibit C-2 pages 3 and 4 of the
7 Application.

8 **Column 4** shows the balances after including the effects of the adjustments
9 identified in column 3.

10 **Column 5** is the amount of Depreciation Reserves allocated to retail electric
11 operations.

12 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-6), WHICH IS ALSO**
13 **EXHIBIT C-6 OF THE APPLICATION.**

14 A. This exhibit shows the balances of fuel stock, emission allowances, materials
15 and supplies, certain deferred debits and credits, and working capital before and
16 after the effects of the accounting and pro forma adjustments.

17 **Q. PLEASE DESCRIBE EXHIBIT NO. __ (KCC-7), WHICH IS ALSO**
18 **EXHIBIT C-7 OF THE APPLICATION.**

19 A. This exhibit shows the components of DESC's retail electric pro forma
20 regulatory capitalization and the computation of its weighted average cost of capital
21 as of December 31, 2019, the end of the Test Year, both before and after

consideration of the requested increase in revenues. Please note however that the common equity balance has been adjusted to reflect changes through May 31, 2020. As shown here, the ROE for the Test Year, after accounting and pro forma adjustments, was 5.90%. In deriving a reasonable return on rate base, the Company has used an ROE of 10.25%, which is the ROE requested by the Company in the Application.

III. ACCOUNTING AND PRO FORMA ADJUSTMENTS

Q. PLEASE LIST THE ACCOUNTING AND PRO FORMA ADJUSTMENTS THAT YOU WILL DISCUSS IN THIS PREFILED TESTIMONY.

A. The accounting and pro forma adjustments that I will discuss are identified below. The adjustment numbers coincide with the numbers on pages 3 and 4 of Exhibit No. __ (KCC-2) and pages 3 and 4 of Exhibit C-2 of the Application. The page number directs your attention to the page in this testimony where my discussion of a particular adjustment is located.

Adj. No.	Pro Forma Adjustment Description	Pg.
1.	Annualize Wages, Benefits, and Payroll Taxes	13
3.	Annualize Health Care	13
4.	Remove Employee Clubs Investment and Expenses	13
5 & 6	Adjust Depreciation Expense	13
7	Annualize Property Taxes	15
8	Annualize Insurance Expense	15
11	Annualize Other Post-Employment Benefits ("OPEB")	15
13	Remove Savannah River Site ("SRS") Refund Reversal Impact from Revenue	16

Adj. No.	Pro Forma Adjustment Description	Pg.
14	Normalize Test Year Purchase Power from GENCO	16
15	GENCO Excess Deferred Income Taxes	16
19	Storm Remediation Cost Deferral	17
20	Storm Damage Remediation Rider Reinstatement	18
21	Tree Trimming and Vegetation Management Accrual	19
22	Turbine Major Maintenance Accrual	20
23	VCS Outage Accrual	20
25	Adjust Test Year Taxes	22
27	Amortize Capacity Purchases	22
28	Environmental Compliance Study	23
29	KapStone Gain	23
30	Critical Infrastructure Protection Costs Deferral	24
31	Fukushima Nuclear Regulatory Commission Requirements Deferral	25
32	VCS Cyber Security Deferral	25
34	Amortization of Columbia and Charleston Franchise Agreements	26
35	Unrecovered Plant Amortization	26
37	Local Business Offices	27
38	Rate Case Expenses	27

In all cases, the entries reflect amounts related to total electric operations, and tax, working cash, and other adjustments associated with these pro forma adjustments have been made.

The pro forma adjustments all follow established rate making and accounting policies as recognized by this Commission and are necessary to create a proper determination and calculation of DESC's rate base, revenues and expenses for rate making purposes. The Commission historically has permitted known and

1 measurable changes in rate base items, revenues, and expenses to be made as pro
2 forma adjustments to historical Test Year information for purposes of rate
3 adjustment proceedings.

4 **Q. PLEASE DESCRIBE THE ADJUSTMENTS.**

5 A. **Adjustment No. 1, Annualize Wages, Benefits, and Payroll Taxes.** This
6 pro forma adjustment decreases the Test Year wages, benefits, and payroll taxes to
7 reflect the current level of expense as of March 2020. Adjustments of this nature
8 have been pro forma adjustments in the Company's electric rate cases in the past.
9 The effect of this adjustment is to decrease Operations and Maintenance ("O&M")
10 expenses by \$1,252,809 and other taxes (specifically payroll taxes) by \$88,226.

11 **Adjustment No. 3, Annualize Health Care.** This adjustment annualizes
12 healthcare costs to reflect the level of cost incurred in the last quarter of the Test
13 Year. The result is an increase in Test Year O&M expenses of \$3,129,101.

14 **Adjustment No. 4, Remove Employee Clubs Investment and Expenses.**
15 This pro forma adjustment removes from rate consideration the investment and
16 expenses related to employee clubs (Pine Island Club, Sand Dunes Club, and Misty
17 Lake Club). The effect of this adjustment is to lower common plant in service by
18 \$5,601,364, depreciation reserves by \$2,486,521, and depreciation expense by
19 \$136,956.

20 **Adjustment Nos. 5 and 6, Adjust Depreciation Expense.** These pro forma
21 adjustments reflect two different adjustments to Test Year depreciation expense.

1 Consistent with prior practice authorized by the Commission, the Company is
2 making an adjustment to increase depreciation expense by \$8,340,028 and
3 depreciation reserves by \$7,851,808 to provide for the recognition of a full year of
4 depreciation at the currently approved (prior to new depreciation study) depreciation
5 rates, after consideration of plant additions and retirements through March 31, 2020.

6 The Company is also making an adjustment based on a recently conducted
7 Depreciation Study. To ensure that its depreciation expense and related
8 accumulated depreciation reserves are at appropriate levels and in keeping with
9 sound accounting practices, DESC initiates a Depreciation Study on a periodic
10 basis. Historically, the Company has conducted a Depreciation Study
11 approximately every five years. In 2019 DESC commenced a new Depreciation
12 Study using electric and common plant balances as of December 31, 2018 ("2018
13 Depreciation Study"). DESC's most recent previous Depreciation Study was based
14 on electric and common plant balances as of December 31, 2014. The results of the
15 study indicate an increase to annual depreciation expense and are explained in detail
16 in the pre-filed direct testimony of Company Witness Spanos. The Company is
17 making an adjustment to increase depreciation expense and reserves by \$7,119,883
18 to provide for the recognition of a full year of depreciation at the proposed rates
19 determined by the 2018 Depreciation Study.

1 The total impact of these two adjustments is to increase Test Year
2 depreciation expense by \$15,459,911 and increase depreciation reserves by
3 \$14,971,691.

4 **Adjustment No. 7, Annualize Property Taxes.** This pro forma adjustment
5 adjusts property taxes to reflect assessable plant in service amounts as of the end of
6 March 31, 2020, to include the effects of plant additions and retirements occurring
7 after the end of the Test Year through March 31, 2020. The result of this entry
8 increases taxes other than income taxes for the Test Year by \$14,256,553.

9 **Adjustment No. 8, Annualize Insurance Expense.** This pro forma
10 adjustment decreases O&M expenses by \$1,769,790 to annualize the current cost of
11 premiums for policies that were in effect as of March 31, 2020.

12 **Adjustment No. 11, Annualize Other Post-Employment Benefits**
13 **(“OPEB”).** This pro forma adjustment annualizes the electric O&M portion of the
14 Company’s expenses for OPEB to match the amounts required to be accrued for
15 these future expenses under the Company’s actuarial study. In addition, this
16 adjustment for OPEB expense requires a related adjustment to rate base. The effect
17 of this adjustment is to increase expenses for the Test Year by \$263,954 and to
18 decrease rate base by \$198,097.

1 **Adjustment No. 13, Remove Savannah River Site (“SRS”) Refund**

2 **Reversal Impact from Revenue.** This adjustment removes from Test Year revenue
3 the effect of the reversal of a prior period refund reserve related to the Company’s
4 operations and maintenance agreement of certain transmission facilities at SRS.
5 The effect of this adjustment decreases Test Year revenue by \$900,259 and gross
6 receipts taxes by \$4,491.

7 **Adjustment No. 14, Normalize Test Year Purchase Power from**

8 **GENCO.** As a result of an April 28, 2020 FERC-approved modification to
9 GENCO’s formula rate due to tax reform, DESC’s purchased power from GENCO
10 is expected to be lower than Test Year levels going forward. In addition, the
11 Company is normalizing (lowering) Test Year purchased power expense to reflect
12 the capitalization structure in effect at GENCO as of December 31, 2019. This
13 adjustment reflects the full-year impact on the GENCO bill of a \$230 million inter-
14 company advance to GENCO from Dominion Energy, Inc. that served to increase
15 the debt ratio and lower the equity ratio. The combined effect of these entries
16 reduces Test Year purchased power expense by \$12,646,810.

17 **Adjustment No. 15, GENCO Excess Deferred Income Taxes.** By order

18 dated April 28, 2020, the FERC authorized modifications to GENCO’s formula rate
19 to provide for the pass through of GENCO’s amortized excess deferred income tax
20 (“EDIT”) liabilities to DESC. Accordingly, in April 2020, GENCO began passing
21 these amounts through to DESC. In order to ensure that DESC’s customers receive

1 the full benefit of the amortization of GENCO's EDIT liabilities, DESC has
2 recorded the impact of these amounts as a regulatory liability. DESC is proposing
3 to flow these benefits, plus accrued carrying cost credits, to its customers over a
4 three-year period. GENCO's actual fuel costs are recovered by DESC through
5 DESC's fuel component of retail rates. However, GENCO's "non-fuel" expenses
6 are recovered by DESC as purchased power through base rates. Therefore, this pro-
7 forma adjustment is necessary to capture these benefits in DESC's base rates. The
8 effect of this adjustment is to decrease Test Year purchased power expense by
9 \$1,853,763 and decrease rate base by \$2,782,499.

10 **Adjustment No. 19, Storm Remediation Cost Deferral.** Pursuant to
11 Commission Order No. 2010-471 issued in Docket No. 2009-489-E, collections
12 under the Company's storm damage rider were suspended. In Order No. 2012-951
13 issued in Docket No. 2012-218-E, the Commission ordered the indefinite
14 suspension of the storm damage rider. Since the suspension of the storm damage
15 rider, the Company has exhausted its previously recognized storm damage reserve
16 regulatory liability balance, representing rider recoveries that had not been applied
17 to offset storm damage remediation costs. In fact, the Company now has a
18 regulatory asset, totaling \$43,899,686 as of June 30, 2020, representing unrecovered
19 storm damage remediation costs in excess of previous rider recoveries. In
20 accordance with the after the fact recovery of storm damage response and
21 restoration costs contemplated in Commission Order No. 2012-951, the Company

1 is seeking to recover these deferred storm damage remediation costs over a five-
2 year period. This five-year period aligns closely with the time period that the
3 balance has accumulated after the previous reserve balance was exhausted in 2016.
4 The effect of this adjustment is to increase Test Year O&M expenses by \$8,779,937
5 and to increase rate base by \$26,357,372.

6 **Adjustment No. 20, Storm Damage Remediation Rider Reinstatement.**

7 As discussed in the pre-filed direct testimony of Company Witness Kissam, the
8 Company is seeking to reinstate the storm damage remediation rider to be available
9 to offset future incremental storm restoration and response costs in excess of \$2.5
10 million in a given calendar year. In this sense, the \$2.5 million will serve as a
11 “deductible” to be absorbed by the Company and is consistent with prior practice.
12 The effect of this adjustment is to increase Test Year O&M expenses by \$9,839,863
13 and is based off the average incremental storm restoration costs for the five-year
14 period ended December 31, 2019. This adjustment also necessitates a decrease to
15 rate base, reflecting the establishment of a regulatory liability for rider collections,
16 of \$7,384,817.

17 As part of this request, in the event that incremental storm costs exceed the
18 balance in the reserve, the Company is seeking Commission authorization to defer
19 those costs as a regulatory asset and to treat that regulatory asset as a component of
20 the Company’s rate base. Future rider recoveries will be applied to reduce the

1 regulatory asset balance until such balance is eliminated, at which time the rider
2 recoveries will again begin increasing the reserve balance.

3 **Adjustment No. 21, Tree Trimming and Vegetation Management**

4 **Accrual.** As discussed in the pre-filed direct testimony of Company Witness
5 Kissam, the Company is requesting Commission authorization to establish a tree
6 trimming and vegetation management accrual. The effect of this accrual seeks to
7 levelize tree trimming and vegetation management costs and customer collections
8 over the average five-year operating cycle the Company seeks to maintain for these
9 activities and would operate similarly to the Company's existing turbine major
10 maintenance accrual. Since the five-year operating cycle results in the Company
11 incurring higher costs in some years and lower costs in other years, this accrual
12 levelizes the costs over the five-year operating cycle and allows for a better
13 matching of associated costs and customer collections (revenue). If approved, any
14 difference between accrued amounts and actual costs incurred will be deferred as a
15 regulatory asset (undercollection) or regulatory liability (overcollection) as
16 appropriate. Since actual expenses will vary from estimates, the Company would
17 expect there to be an undercollection or overcollection at the end of the five-year
18 period. Any undercollected or overcollected balance at the end of the five-year
19 accrual period would be considered in setting the accrual for the subsequent five-
20 year operating cycle. The result of this adjustment is an increase in Test Year O&M
21 expenses of \$3,519,375.

1 **Adjustment No. 22, Turbine Major Maintenance Accrual.** Through
2 Orders No. 2005-2, 2010-471, and 2017-447, the Commission authorized the use of
3 a turbine generator maintenance accrual associated with Wateree, Williams,
4 McMeekin, Cope, Urquhart, and Jasper Stations. In Order No. 2019-393, the
5 Commission authorized the inclusion of DESC's recently acquired Columbia
6 Energy Center facility as part of this accrual. Under this accrual mechanism, the
7 Company levelizes the accrual and customer collections for turbine maintenance
8 expenditures over an eight-year operating cycle. Differences between actual
9 expenditures incurred and accrued amounts are deferred as either a regulatory asset
10 (undercollection) or regulatory liability (overcollection) as appropriate. As
11 discussed in the pre-filed direct testimony of Company Witness Kissam, the
12 Company is seeking to extend this maintenance accrual for another eight-year cycle.
13 Based on the projected December 31, 2020 existing accrual undercollected
14 regulatory asset balance of \$11,981,766 and projected expenditures for the eight-
15 year operating cycle covering January 1, 2021, through December 31, 2028, the
16 Company is proposing an annual accrual amount of \$29,052,493. The effect of this
17 adjustment is to increase Test Year O&M expenses by \$10,616,708.

18 **Adjustment No. 23, VCS Outage Accrual.** V.C. Summer Station is subject
19 to recurring refueling outages on an 18-month cycle. In Order No. 2012-951 issued
20 in Docket No. 2012-218-E, the Commission approved a five-outage cycle (or 90
21 months) accrual mechanism. This five-outage cycle covered activities through

1 refuel outage No. 25, which occurred in the spring of 2020. At the conclusion of
2 the outage accrual cycle, which went through June of 2020, the Company had a
3 cumulative undercollected balance of \$3,156,176 representing actual cumulative
4 outage costs in excess of the cumulative accruals. By letter dated July 27, 2020, the
5 Company requested Commission authorization to maintain its accrual at the current
6 level and address the accrual mechanism in its next general rate proceeding. On
7 August 18, 2020, the Commission issued a Directive in Docket No. 2020-172-E
8 approving the Company's request. In furtherance of that request, the Company is
9 seeking to extend the nuclear outage accrual for another five-outage cycle, which
10 would include refuel outages 26 through 30, covering the period beginning July
11 2020 and extending through December 2027. The beginning undercollection of
12 \$3,156,176, in addition to estimated costs for refueling outages 26 through 30 of
13 \$126,247,390, is incorporated into the new accrual amount. Also, in estimating the
14 necessary adjustment, the Company has considered the monthly accruals that will
15 continue under the existing accrual. Since outages occur on an 18-month cycle and
16 particular outage costs vary based on the scope of work to be completed during a
17 particular outage, the five-cycle accrual mechanism benefits customers by
18 levelizing outage costs and more closely aligning recovery from customers with the
19 related period of benefit from the operation of the facility. The effect of this
20 adjustment is to increase Test Year O&M by \$71,341.

1 **Adjustment No. 25, Adjust Test Year Taxes.** This adjustment removes the
2 impacts of cumulative uncertain tax positions recorded in the Test Year under
3 GAAP that relate to tax positions taken in prior year tax returns. The removal of
4 these prior year uncertain tax positions reduces Test Year tax expense by
5 \$40,386,318 and reduces rate base by \$9,642,256.

6 **Adjustment No. 27, Amortize Capacity Purchases.** Pursuant to
7 Commission Order No. 2008-530, the Company has deferred certain charges for
8 capacity purchased in order to meet customer and system needs over the 2008
9 through 2018 time period, which are not currently being recovered. By Order No.
10 2017-40, the Commission extended the deferral authorization through 2019;
11 however, no amounts were deferred for 2019. The Company is proposing to
12 amortize this deferral, totaling \$2,134,511, over a three-year period, which amounts
13 to an annual amortization of \$711,504. However, after July 2020 the Company
14 ceased an existing annual capacity deferral amortization of \$296,000 recorded
15 pursuant to Commission Order No. 2010-471 once the balance was fully amortized.
16 In addition, an existing annual capacity deferral amortization of \$10,800,000
17 recorded pursuant to Commission Order No. 2013-649, will cease upon the deferred
18 balance being fully amortized in February 2021. As a result, Test Year purchased
19 power expense reflects amortization of \$11,096,000 that the Company does not
20 expect to incur going forward. The removal of the purchase power expenses
21 associated with the terminated amortizations more than offsets the proposed

1 amortization of the new deferral. The impact of this adjustment increases purchased
2 power expense by \$711,504 to reflect the three-year amortization of the new
3 deferral, but decreases purchased power expenses by \$11,096,000 to reflect the
4 removal of amortization expenses associated with the terminated amortizations.
5 The net effect of this adjustment is a decrease to Test Year purchase power expense
6 of \$10,384,496 and an increase to rate base of \$1,067,967.

7 **Adjustment No. 28, Environmental Compliance Study.** In Order No.
8 2010-471, the Commission authorized the ten-year amortization of deferred
9 environmental compliance study costs. The ten-year amortization period ceased in
10 July 2020. The effect of this adjustment is a decrease to Test-Year O&M of \$94,783
11 to reflect the termination of this amortization.

12 **Adjustment No. 29, KapStone Gain.** On December 31, 2018, the Company
13 sold an electric power generator, a 13.8/115 kV generator step-up transformer, and
14 associated equipment and personal property to KapStone Charleston Kraft LLC
15 (“KapStone”) for \$975,000. At the time of sale, the assets had been fully amortized
16 by DESC and DESC’s carrying value in the assets was zero. Therefore, the
17 \$975,000 that DESC received constitutes a gain on disposition of the assets. On
18 May 30, 2019, the Company filed for authorization from the FERC to clear the gain
19 from FERC Account 102 – Electric Plant Purchased or Sold and record it as a
20 regulatory liability in order to preserve the gain for the future benefit of its
21 customers. In its request to the FERC, the Company indicated that it expected this

1 Commission to determine the appropriate retail rate treatment in its next general
2 retail rate case. By letter order dated July 2, 2019, the FERC approved the
3 Company's request. This Commission should know that in their approval, the
4 FERC stated:

5 *"This accounting approval is not intended to influence the outcome of any*
6 *rate treatment that may be established for this transaction."*

7 The Company is proposing to provide the benefit of this gain to customers
8 over a two-year amortization period. The effect of this adjustment reduces Test
9 Year amortization expense by \$487,500 and decreases rate base by \$365,869.

10 **Adjustment No. 30, Critical Infrastructure Protection Costs Deferral.**

11 Through Order No. 2014-946, the Commission authorized the deferral of up to
12 \$20,000,000 (plus carrying costs as noted below) of incremental costs incurred by
13 the Company from January 1, 2015, through December 31, 2019, to comply with
14 critical infrastructure protection reliability standards promulgated by the FERC.
15 The Commission also authorized the Company to record carrying costs on the
16 deferred balance. The Company is proposing to amortize the deferred balance,
17 including accrued carrying costs, totaling \$24,579,421 over a five-year period. The
18 effect of this adjustment is an increase to Test Year amortization expense of
19 \$542,932, an increase to Test Year O&M of \$4,372,953, and an increase to rate base
20 of \$14,757,486.

1 **Adjustment No. 31, Fukushima Nuclear Regulatory Commission**

2 **Requirements Deferral.** In Order Nos. 2012-780 and 2015-298, the Commission
3 authorized the deferral of up to \$4,500,000 of incremental costs incurred by the
4 Company to comply with requirements promulgated by the Nuclear Regulatory
5 Commission as a result of the earthquake and tsunamis experienced at Tokyo Electric
6 Power Company's Fukushima Daiichi nuclear power station. The Company is
7 seeking to amortize this deferred cost over a ten-year period. The result of this
8 adjustment is an increase to Test Year O&M of \$450,000 and an increase to rate base
9 of \$3,039,525.

10 In Order No. 2012-780, the Commission ordered the Company to file
11 quarterly status reports with the Commission and the ORS regarding the deferred
12 Fukushima requirements costs. As of June 30, 2019, the Company had reached the
13 deferral cap of \$4,500,000 and notified the Commission in its quarterly status report
14 dated August 14, 2019, that DESC would not provide further quarterly updates. The
15 Company respectfully requests that the Commission affirm the Company's position
16 that further quarterly status reports are no longer required.

17 **Adjustment No. 32, VCS Cyber Security Deferral.** Through Order No.
18 2015-790, the Commission authorized the deferral of up to \$9,100,000 of
19 incremental costs incurred by the Company to comply with cyber security
20 regulations promulgated by the Nuclear Regulatory Commission. The Company is
21 proposing to amortize deferred costs totaling \$8,622,108 over a five-year period.

1 The effect of this adjustment is an increase to Test Year O&M of \$1,151,297, an
2 increase to Test Year amortization expense of \$573,125, and an increase to rate base
3 of \$5,176,714.

4 In Order No. 2015-790, the Commission ordered the Company to file
5 quarterly status reports with the Commission and the ORS regarding the deferred
6 cyber security expenses. Since no further costs will be deferred if the proposed
7 treatment requested herein is approved, the Company respectfully requests that the
8 Commission eliminate this quarterly reporting requirement.

9 **Adjustment No. 34, Amortization of Columbia and Charleston**
10 **Franchise Agreements.** In Order No. 2003-38, the Commission approved the
11 amortization of deferred costs associated with the Company's franchise agreements
12 with the cities of Columbia and Charleston. These amounts will be fully amortized
13 in March 2021. Accordingly, the Company's Test Year results contain \$4,183,225
14 of amortization expense that the Company will not incur going forward. The effect
15 of this entry reduces Test Year amortization expense by \$4,183,225 to reflect the
16 termination of these amortizations.

17 **Adjustment No. 35, Unrecovered Plant Amortization.** Urquhart Unit 3
18 and McMeekin Station are now fueled solely by natural gas. As a result, the
19 Company has retired certain equipment and written off certain inventory and
20 preliminary survey and investigation costs which related to the use of coal at these
21 facilities. The Company has recorded its carrying cost in ~~this~~the ~~equipment and~~

1 inventory [and the preliminary survey and investigation account](#) as unrecovered plant
2 regulatory assets and seeks authorization to amortize this cost over a five-year
3 period. The total amount deferred equals \$557,755 for Urquhart Unit 3 and
4 \$1,427,729 for McMeekin Station. The effect of this adjustment is an increase to
5 Test Year amortization expense of \$111,551 and an increase to rate base of
6 \$334,876 for Urquhart Unit 3, and an increase to Test Year amortization expense of
7 \$285,546 and an increase to rate base of \$857,208 for McMeekin Station.

8 **Adjustment No. 37, Local Business Offices.** As discussed in the pre-filed
9 direct testimony of Company Witness Kissam, the Company is closing several local
10 business offices. This adjustment removes from Test Year expenses the O&M and
11 depreciation expense related to those closures. The effect of this adjustment is a
12 decrease to Test Year O&M of \$412,850 and a decrease to Test Year depreciation
13 expense of \$155,410. This pro forma also necessitates the reclassification of the
14 land to nonutility property. The effect of that reclassification is a reduction to utility
15 plant in service of \$1,542,361.

16 **Adjustment No. 38, Rate Case Expenses.** This pro forma adjustment
17 amortizes, over three years, the estimated incremental costs of preparing and
18 presenting this proceeding. The effect of this adjustment is to increase Test Year
19 O&M expenses by \$295,580.

1 **IV. CANADYS UNITS 2 AND 3**

2 **Q. PLEASE EXPLAIN THE COMPANY'S REQUEST REGARDING**
3 **CANADYS UNITS 2 AND 3.**

4 A. Since the last rate proceeding, the Company completed its retirement of the
5 Canadys coal-fired generating station with the removal from service of units 2 and
6 3 at this site. Pursuant to Commission Order No. 2013-649, the carrying value of
7 the Company's investment in the retired Canadys Units 2 and 3 ("Canadys Units"),
8 and costs being incurred related to the retirement, are accounted for as an
9 unrecovered plant regulatory asset and are being amortized at the level of
10 depreciation expense (\$12.3 million per year) that was being recorded for the
11 Canadys Units before their retirement. In this application, DESC respectfully
12 requests that the Commission affirm the accounting treatment implemented
13 pursuant to Order No. 2013-649 and affirm the Company's treatment of this
14 unrecovered investment as a component of its rate base.

15 **V. CONCLUSION**

16 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO?**

17 A. I am respectfully asking that the Commission incorporate into the record of
18 these proceedings the Company's Application, including Exhibits C-1 through C-7,
19 and Supplemental Exhibit C-2 as requested by the Commission, and that it recognize
20 and approve the pro forma adjustments to Test Year results and rate base that I
21 discuss above and that Company Witness Kochems discusses in his testimony. I

1 further request that the Commission affirm the treatment being provided to its
2 unrecovered investment in the Canadys Units pursuant to Order No. 2013-649 and
3 affirm the Company's treatment of this unrecovered investment as a component of
4 its rate base. I further request that the Commission affirm that the quarterly
5 reporting requirements pursuant to Order No. 2012-780 are no longer required and
6 that it remove the quarterly reporting requirements pursuant to Order No. 2015-790.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes, it does.